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17 (f/k/a Morgan Stanley DW, Inc.)

11 UNITED STATES DISTRICT COURT  
12 NORTHERN DISTRICT OF CALIFORNIA  
13 SAN FRANCISCO DIVISION  
14

15 FISHER INVESTMENTS, INC., a California  
16 corporation,

17 Plaintiff,

18 v.

19 MORGAN STANLEY DW, INC., a  
20 Delaware corporation, and DOES 1-10,  
inclusive,

21 Morgan Stanley.

Case No. C 07 2547 JCS

**DEFENDANT MORGAN STANLEY  
& CO., INC.'S (F/K/A MORGAN  
STANLEY DW, INC.) NOTICE OF  
MOTION AND MOTION TO  
DISMISS COMPLAINT PURSUANT  
TO F.R.C.P. 12(b)(6);  
MEMORANDUM OF POINTS AND  
AUTHORITIES IN SUPPORT  
THEREOF**

Date: May 9, 2008  
Time: 10:00 a.m.  
Dept.: 1  
Judge: The Honorable Samuel Conti

**NOTICE OF MOTION AND MOTION**

**TO PLAINTIFF FISHER INVESTMENTS, INC. AND ITS ATTORNEYS OF  
RECORD:**

PLEASE TAKE NOTICE that on May 9, 2008 at 9:00 a.m., or as soon thereafter as the matter may be heard, before the Honorable Samuel Conti, Courtroom 1, United States District Courthouse, 450 Golden Gate Avenue, San Francisco, California 94102, Defendant Morgan Stanley & Co., Inc. (formerly known as Morgan Stanley DW, Inc.) (“Morgan Stanley”) will and hereby does move, pursuant to Federal Rule of Civil Procedure 12(b)(6), for an order dismissing plaintiff Fisher Investments, Inc.’s (“Fisher”) Second, Third, Fourth, and Fifth Causes of Action for failure to state a claim upon which relief can be granted. Specifically, Morgan Stanley seeks an order dismissing Plaintiff’s claims for intentional interference with business relations; violation of Business and Professions Code section 17200 (unfair competition); unjust enrichment; and conversion. Each of these causes of action are preempted by the Uniform Trade Secrets Act and, accordingly, the Court should dismiss them with prejudice because they are incurable. The motion is based on this Notice, the accompanying Memorandum of Points and Authorities, all allegations in the Complaint, any request for judicial notice, oral argument at the hearing, and any other matter which the Court deems appropriate.

**MEMORANDUM OF POINTS AND AUTHORITIES**

**I. INTRODUCTION**

Though this civil action is at its core one for misappropriation of trade secrets, Plaintiff Fisher Investments, Inc. (“Fisher”) has asserted various duplicative and collateral claims against Defendant Morgan Stanley & Co., Inc. (“Morgan Stanley”) that add nothing to this litigation and must be dismissed as a matter of law. Because Fisher’s causes of action for interference with business relations, unfair competition, unjust enrichment, and conversion rest upon the same nucleus of operative facts that support Fisher’s trade secret misappropriation claim, they are preempted by the California Uniform Trade Secrets Act and must be dismissed. Further, Fisher’s causes of action for unfair competition and conversion also must be dismissed with prejudice because they fail as a matter of law for reasons independent of preemption and they are not

1 curable.

## 2 **II. STATEMENT OF FACTS**

3 On April 12, 2007, Fisher filed this action against Morgan Stanley, alleging five causes of  
 4 action: (1) Misappropriation of Trade Secrets and Confidential Information; (2) Interference with  
 5 Business Relations; (3) Unfair Competition; (4) Unjust Enrichment; and (5) Conversion. Morgan  
 6 Stanley timely removed this action to the instant Court. The gravamen of Fisher's claim is that  
 7 Morgan Stanley knowingly hired one of Fisher's former salespeople, David Allen "Ike" Klauka,  
 8 who then used Fisher's alleged trade secret and confidential customer information to solicit Fisher  
 9 clients while at Morgan Stanley. Cmpl't. ¶¶ 20–29. Based upon this allegation – and only this  
 10 allegation – Fisher asserts not only a cause of action under California Uniform Trade Secrets Act  
 11 ("UTSA"), but also the four additional causes of action identified above.

## 12 **III. ARGUMENT**

### 13 **A. Motion to Dismiss Standard**

14 Federal Rule of Civil Procedure 12(b)(6) provides for dismissal when a complaint fails to  
 15 state a claim upon which relief can be granted. "Dismissal can be based on the lack of a  
 16 cognizable legal theory or the absence of sufficient facts alleged under a cognizable legal theory."  
 17 *Balistreri v. Pacifica Police Dept.*, 901 F.2d 696, 699 (9th Cir. 1990). For both of these reasons,  
 18 Plaintiff's Second, Third, Fourth, and Fifth Causes of Action should be dismissed.

### 19 **B. The California Uniform Trade Secrets Act Preempts Fisher's Second, Third, 20 Fourth, and Fifth Causes of Action.**

21 The broad language of the UTSA preempts all causes of action which, like plaintiff's  
 22 claims for interference with business relations, unfair competition, unjust enrichment, and  
 23 conversion, are predicated on allegations of trade secret misappropriation. Under a well-  
 24 established body of case law, Fisher's Second, Third, Fourth, and Fifth causes of action cannot  
 25 stand and must be dismissed.

#### 26 **1. The UTSA Preempts All Causes Of Action That Are Based On 27 Allegations Of Trade Secret Misappropriation.**

28 A statute has preemptive effect when it appears that "the Legislature intended to cover the  
 entire subject or, in other words, to 'occupy the field.' *I.E. Associates v. Safeco Title Insurance*

Co., 39 Cal. 3d 281, 285 (1985) (citation omitted). The UTSA provides a comprehensive and detailed scheme to regulate claims of alleged misuse of confidential information. According to a California court, “[t]he stated purpose of the UTSA is to provide unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.” *American Credit Indemnity Co. v. Sacks*, 213 Cal. App. 3d 622, 630 (1989) (internal quotation marks and citation omitted).

The preemptive effect of the UTSA is defined in the Civil Code as follows:

*This title does not affect (1) contractual remedies, whether or not based upon misappropriation of a trade secret, (2) other civil remedies that are not based upon misappropriation of a trade secret, or (3) criminal remedies, whether or not based upon misappropriation of a trade secret.*

Cal. Civ. Code § 3426.7(b) (emphasis added). A plain reading of section 3426.7(b) indicates that the UTSA forecloses all non-contractual civil causes of action that are based upon allegations of trade secret misappropriation. *See Acculmage Diagnostics Corp. v. TeraRecon, Inc.*, 260 F. Supp. 2d 941, 953 (N.D. Cal. 2003).

California federal district courts have consistently concluded that the California UTSA manifests a legislative intent to preempt all other claims that are based on alleged trade secret misappropriation. *See, e.g., First Advantage Background Servs. Corp. v. Private Eyes, Inc.*, 2007 U.S. Dist. LEXIS 67941, at \*14 (N.D. Cal. September 5, 2007) (decision by Judge Conti); *Monolithic Power Systems, Inc. v. O2 Micro International Ltd.*, 2007 U.S. Dist. LEXIS 22556 (N.D. Cal. March 14, 2007); *MDTV Medical News, Inc. v. Weinstock*, 2007 U.S. Dist. LEXIS 8806, at \*10 (S.D. Cal. February 6, 2007) (USTA preempts claims for breach of confidentiality and loyalty and conversion); *Acculmage*, 260 F. Supp. 2d at 953 (finding that UTSA “totally supersede[s] and replace[s] common law dealing with the subject matter”) (internal quotation marks and citation omitted); *Airdefense, Inc. v. Airtight Networks, Inc.*, 2006 U.S. Dist. LEXIS 55364, at \* 11 (N.D. Cal. July 26, 2006) (claims based on the same factual allegations as the claim for misappropriation of trade secrets are preempted); *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025, 1034 (N.D. Cal. 2005). This conclusion is also consistent

1 with a vast body of other authority applying the UTSA.<sup>1</sup> In short, it is clear that “the UTSA  
2 occupies the field in California.” *Acculmage*, 260 F. Supp. 2d at 954.

3 **2. The UTSA Preempts Fisher’s Interference with Business Relations**  
4 **Claim.**

5 In its Second Cause of Action, Fisher asserts a claim for interference with business  
6 relations. Courts have specifically held that the UTSA preempts a claim for interference with  
7 business relations when that claim is predicated upon the same facts as the UTSA claim. *See*  
8 *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 974 (N.D. Ill. 2000) (interference  
9 with business relations claim preempted by Illinois Trade Secret Act because it was “based on the  
10 very same allegations that form the basis of [plaintiff’s] misappropriation of trade secrets claim”);  
11 *Greif Inc v. MacDonald*, 2007 U.S. Dist. LEXIS 14617 (W.D. Ky. March 1, 2007); (explaining  
12 that “claims of unfair competition, tortious interference, breach of fiduciary duty, and civil  
13 conspiracy are preempted to the extent that they are based upon the misappropriation of trade  
14 secrets”); *Fedders Corp. v. Haier Am. Trading, LLC*, 2002 U.S. Dist. LEXIS 5879 (S.D.N.Y  
15 2002), at \*12 (same).

16 Here, Fisher’s interference with business relations claim is based upon in the same facts as  
17 those supporting its UTSA claim. First, Fisher’s claim incorporates by reference the facts upon  
18 which Fisher bases its UTSA claim. Without any further meaningful allegations, Fisher then  
19 contends in conclusory fashion that Morgan Stanley has interfered with its business relations by  
20 “committing the wrongful acts set forth in detail above.” Cmpl’t. ¶ 49. Fisher’s interference with  
21 business relations claim thus based on the same allegations as the its UTSA claim and is therefore  
22 preempted and should be dismissed with prejudice. *Airdefense*, 2006 U.S. Dist. LEXIS 55364, at  
23 \*11.

24  
25 <sup>1</sup> *See, e.g., Convolv Inc. v. Compaq Comper Corp.*, 2006 U.S. Dist. LEXIS (“[T]he California UTSA, like other  
26 UTSA’s, preempts all claims based on misappropriation of trade secrets that are non specifically exempted by its §  
27 3426.7(b) savings clause.”); *Callaway Golf Co. v. Dunlop Slazenger Group Americas, Inc.*, 318 F. Supp. 2d 216, 219  
28 (D. Del. 2004) (explaining that UTSA “preempts common law claims that ‘are based on misappropriation of a trade  
secret’” (citation omitted); *see also 1 Milgrim on Trade Secrets* § 1.01[3][a] (2006) (“If the other claims are no more  
than a restatement of the same operative facts which would plainly and exclusively spell out only trade secret  
misappropriation, then dressing those claims up in different clothing is not likely to be found consistent with the  
preempting dictates of UTSA.”).

1                                    **3.     The UTSA Preempts Fisher's Unfair Competition Claim**

2             In its Third Cause of Action, Fisher purports to plead a claim for unfair competition under  
 3     section 17200 of the California Business and Professions Code. The preemptive reach of the  
 4     UTSA extends to statutory causes of action for unfair business practices that are predicated on  
 5     allegations of trade secret misappropriation. *See Digital Envoy*, 370 F. Supp. 2d at 1034-1035  
 6     (ruling that UTSA preempted common law unfair business practices claim that was “based on the  
 7     identical nucleus of facts as those alleged in the [trade secret] misappropriation claim”); *Ernest*  
 8     *Paper Products, Inc. v. Mobil Chemical Co.*, 1997 U.S. Dist. LEXIS 21781, at \*28 (C.D. Cal.  
 9     Dec. 2, 1997) (finding that UTSA preempted statutory unfair competition claim that was based on  
 10    same allegations as cause of action for trade secret misappropriation); *Convolve*, 2006 U.S. Dist.  
 11    LEXIS 13848, at \*28-29 (granting summary judgment for defendants where plaintiffs’ cause of  
 12    action for unfair competition under Cal. Bus. & Prof. Code § 17200 arose “out of the same  
 13    nucleus of operative facts as its misappropriation of trade secrets claim” and was therefore  
 14    “preempted under the California UTSA”).

15            Fisher’s unfair competition claim is grounded in the same nucleus of operative facts as its  
 16    trade secret misappropriation claim and is therefore preempted. As the basis for this claim, Fisher  
 17    first incorporates by reference the facts it asserts in support of its misappropriation cause of  
 18    action. Cmpl’t. ¶ 54. Next, Fisher repeats its assertions of misappropriation and alleges that  
 19    because these actions violate the UTSA, they “therefore constitute unlawful business practices  
 20    within the meaning of Business and Professions Code sections 17200 *et seq.*” *Id.* ¶ 55. Finally,  
 21    Fisher again asserts that Morgan Stanley has received trade secret and confidential information.  
 22    *Id.* ¶ 56. In sum, Fisher alleges no facts to support its unfair competition cause of action other  
 23    than those it asserts as part of its trade secret misappropriation claim. Because there is no  
 24    material distinction between the wrongdoing alleged in the unfair competition claim and that  
 25    alleged in the misappropriation of trade secrets claim, Fisher’s third cause of action fails as a  
 26    matter of law and should be dismissed *with* prejudice. *See First Advantage*, 2007 U.S. Dist.  
 27    LEXIS 67941, at \*14 (dismissing Business & Professions section 17200 claim *with* prejudice).  
 28

1                               **4. The UTSA Preempts Fisher’s Unjust Enrichment Claim.**

2               In its Fourth Cause of Action, Fisher asserts a claim for unjust enrichment. Courts have  
3 held that the UTSA preempts an unjust enrichment claim that is predicated, as it is here, on the  
4 same facts alleged to support a trade secret misappropriation claim. *See Digital Envoy*, 370 F.  
5 Supp. 2d at 1035 (“California’s statute . . . preempts [plaintiff’s] claim[] for . . . unjust enrichment  
6 since [that claim is] based on the same nucleus of facts as the misappropriation of trade secrets  
7 claim for relief); *Callaway Golf*, 318 F. Supp. 2d at 219–220 (concluding that UTSA superseded  
8 unjust enrichment claim that was “based entirely on the same factual allegations that form the  
9 basis of [plaintiffs] trade secrets claim”).

10           The facts Fisher pleads in its unjust enrichment claim are materially indistinguishable  
11 from those that Fisher alleges in its claim for misappropriation of trade secrets. In support of the  
12 unjust enrichment claim, Fisher again incorporates by reference the paragraphs of its UTSA  
13 claim. Cmplt. ¶ 39. Fisher then asserts that “as a result of the wrongful acts alleged above,”  
14 Morgan Stanley was unjustly enriched. *Id.* ¶ 60. Fisher fails to identify any unjust enrichment  
15 separate and apart from whatever benefit Morgan Stanley gained from the alleged  
16 misappropriation of its trade secrets. Because Fisher “merely restates the operative facts” it  
17 pleads to support its misappropriation claim, the UTSA preempts the fourth cause of action, and it  
18 should be dismissed with prejudice. *See Callaway Golf*, 318 F. Supp. 2d at 220–21.

19                               **5. The UTSA Preempts Fisher’s Conversion Claim.**

20           In its Fifth Cause of Action, Fisher attempts to state a cause of action for conversion.  
21 However, this claim is based on the same nucleus of operative facts as Fisher’s First Cause of  
22 Action for Misappropriation of Trade Secrets. Fisher alleges in conclusory terms that “[t]he  
23 conduct of the named Morgan Stanley, and each of them, constitutes conversion of Plaintiffs’  
24 property.” The only “property” that Fisher contends that Morgan Stanley converted is the  
25 allegedly proprietary and trade secret information identified in Fisher’s First Cause of Action for  
26 trade secret misappropriation. Because Fisher does not, and cannot, identify any other property at  
27 issue, Fisher’s Fifth Cause of Action is preempted by the UTSA and must be dismissed with  
28 prejudice. *See MDTV Medical News, Inc. v. Weinstock*, 2007 U.S. Dist. LEXIS 8806, at \*10–11



(S.D. Cal. February 6, 2007) (California UTSA preempts claims for conversion); *Airdefense*, 2006 U.S. Dist. LEXIS 55364 at \*11 (N.D. Cal. July 26, 2006) (same); *Callaway Golf Co. v. Dunlop Slazenger Group Ams., Inc.*, 318 (same).

**C. Fisher's Third Cause of Action Fails As A Matter Of Law.**

In addition to being preempted by the UTSA, Fisher's third cause of action for unfair competition under California Business and Professions Code § 17200 is legally defective because it does not allege that Morgan Stanley engaged in any "unfair" practices other than what it asserts in its trade secret misappropriation cause of action.

Business & Professions Code § 17200 prohibits "unfair competition," which it defines to mean "any unlawful, unfair or fraudulent business act or practice." Cal. Bus. & Prof. Code § 17200. Fisher alleges that Morgan Stanley engaged in "*unfair* competition" in violation of the California Business and Professions Code. Cmplt. ¶ 55. To state a claim under the "unfair" prong of the statute, Plaintiff must allege conduct that is "tethered to some legislatively declared policy or proof of some actual or threatened impact on competition." *Id.* at 186–187; *see Schnall v. Hertz Corp.*, 78 Cal. App. 4th 1144, 1166 (2000) (stating that "any claims of unfairness under [section 17200] should be defined in connection with a legislatively declared policy"). An unfair competition claim that fails to identify the underlying violation is legally insufficient. *See Khoury v. Maly's of California, Inc.*, 14 Cal. App. 4th 612, 619 (1993) (affirming dismissal without leave to amend where plaintiff failed "to describe with any reasonable particularity" facts supporting unfair competition claim).

Fisher pleads no facts to suggest that Morgan Stanley did anything "unfair." Instead, it seeks to hold Morgan Stanley liable for unfair competition solely based on Morgan Stanley's alleged misappropriation of trade secrets. As is set forth in this motion, the UTSA cannot serve as the basis for a section 17200 claim because the trade secrets statute is, by its very terms, exclusive. Fisher does not identify any other legislative enactment from which to borrow or to which to tether its unfair business practices claim. Fisher cannot base its cause of action on some unpled conduct that it subjectively believes is unfair. *See Cel-Tech Communications v. L.A. Cellular Tel. Co.*, 20 Cal. 4th 163, 182 ("Although the unfair competition law's scope is



sweeping, it is not unlimited. Courts may not simply impose their own notions of the day as to what is fair or unfair.”). For this additional reason, this claim must be dismissed.

**D. Plaintiff’s Fifth Cause of Action Fails As A Matter Of Law.**

Even if not preempted, the Court should dismiss Fisher’s Fifth Cause of Action for conversion because Fisher fails to allege that it lost possession, or did not retain copies, of the trade secrets or information that Morgan Stanley allegedly misappropriated or that it was deprived of the beneficial use of the trade secret or information. *See VSL Corp. v. General Techs.*, 44 U.S.P.Q.2d 1301 (N.D. Cal. 1997) (granting summary adjudication of conversion claim because plaintiff retained copies of documents that defendant improperly used and was not deprived of the beneficial use of them); *FMC Corp. v. Capital Cities/ABC, Inc.*, 915 F.2d 300, 303–304 (7th Cir. 1990) (applying California law and holding that “the receipt of copies of documents, rather than the documents themselves, should not ordinarily give rise to a claim for conversion”).<sup>2</sup> Thus, the conversion cause of action fails to state facts sufficient to constitute a cognizable cause of action.

**IV. CONCLUSION**

For the foregoing reasons, Morgan Stanley respectfully submits that the Court must dismiss Fisher’s Second, Third, Fourth, and Fifth Causes of Action *with* prejudice.

Dated: March 7, 2008

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<sup>2</sup> “Where the owner still retains originals or other copies of documents another improperly uses the owner is not deprived of the beneficial use of the information” a conversion claim cannot stand. *VSL Corp. v. General Techs.*, 44 U.S.P.Q.2d 1301 (N.D. Cal. 1997). “The reason for this rule is that the possession of copies of documents—as opposed to the documents themselves—does not amount to an interference with the owner’s property sufficient to constitute conversion. In cases where the alleged converter has only a copy of the owner’s property and the owner still possess the property itself, the owner is in no way being deprived of the use of his property.” *FMC Corp.*, 915 F.2d at 303–304 (internal quotations and citations omitted).